

CLIENT RELATIONSHIPS MATTER – FUNDS OF HEDGE FUNDS AND CRM PLATFORMS

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In any business, growth, especially rapid growth, brings change and with change comes new challenges. The exponential growth of hedge funds in the past five years has certainly prompted major change to an industry that previously operated with almost total anonymity. Regulation, vastly increased competition, and an entirely new pension fund client base that avoided hedge funds until recently is the result.

Initially, hedge funds primarily catered to high net worth individuals and family offices. Managers typically dealt with one individual who wrote the check. Within this context asset managers needed only a flat file contact management program like ACT! or Access Database, Excel Spreadsheet or simply Outlook to record the vital statistics, i.e., contact name, address, phone and fax numbers and email address.

The landscape is very different today. With the number of hedge funds increasing dramatically over the past ten years to more than 9,000, the competition for new clients and new money is fierce. The popularity of the many hedging strategies has brought with it regulation and the need for transparency to the business for the first time. Pension funds and other institutional clients' demands have resulted in a new level of complexity within the alternative industry. Doing business with institutions has certainly put pressure on hedge fund fees, demanding a more professional approach to marketing and client service, and placing higher expectations on performance and reporting. But dealing with institutional clients has also opened up a "Pandora's box" called "relationship management".

Many of the new professionals in the hedge fund arena come from proprietary sell side trading desks where the sales process does not involve the complex relationship issues that exist on the buy side of the business.

For some time now, traditional asset managers have been using Client Relationship Management (CRM) solutions to monitor the multi-dimensional relationships that exist in the institutional market. On the institutional side, for example, there are more "client types": corporate funds, endowments, public funds, and unions, each with distinct management structures and reporting requirements.

Additionally, the sales process is more complex. Typically, there was one decision maker before; now the hedge fund sales executive with a pension prospect may deal with three to ten decision makers. Plus, there is an array of consultants/actuaries and fiduciaries who have the responsibility to protect the rights of beneficiaries. Sales executives are dealing with master trustees and custodians, possibly multiple pension consultants for each prospect/client and, of course, the Investment Committee.

The challenges

The first challenge facing hedge funds and fund of hedge funds is acquiring the pension business through a complex sales process that includes manager searches (RFP / RFI) and formal product presentations that may take many months. New regulation in North America and abroad (including the Sarbanes-Oxley Act of 2002, SEC filings, anti-money laundering reports, know-your-client reports) poses major compliance issues for hedge funds. In addition to regulatory compliance, hedge funds and funds of hedge funds have to be concerned about "procedural compliance". Were the reports sent out on time? Were the subscription documents signed? Was the money wired out, etc.? In other words, a potentially greater problem in this industry has become servicing the client and *keeping* the business. The ability to track all pre and post-sales client interactions suddenly becomes mandatory for hedge fund managers working within the institutional arena. This means that the CRM solution for alternative managers must be an end-to-end, company wide solution where everyone has access to historical records and each shoulders input responsibilities.

Types of CRM systems available

CRM systems available today fall into roughly three basic categories: (1) high-end enterprise systems (2) mid-market solutions tailored to the investment industry; and (3) the more basic contact management programs.

The high-end systems are very expensive, usually need a great deal of customization, cover a broad range of industries and are generally designed for organizations with large outside sales teams and/or call centers.

Some of the mid-market systems are sold almost exclusively to the asset management community. While there are a number of systems available that will satisfy the fund of hedge fund managers' CRM requirements, it is important to "look under the hood" and analyze the "process" used. How does the solution fit with the firms' work flow? How easy is it to use? Does it require an extensive IT support or can it be administered by the users themselves?

An important consideration of funds of hedge funds is whether or not the CRM system is structured so that the research department can adequately manage its relationships with fund managers and whether or not the managers in the research database can be linked back to client accounts. It is preferable that the manager activity be viewed as a separate group rather than commingled with the prospect/client or consultant data while still maintaining the linkages to client and consultant profiles.

As stated earlier, the contact management programs are sufficient for capturing basic contact information but cannot meet the test of a true relationship management system for this unique industry. Certain on-demand solutions have a relatively low entry cost since they charge on a per-use basis. However, the architecture of these systems is not designed to handle the complexities of the many types of relationships particular to the asset management business.

Characteristics of the ideal CRM for hedge funds and funds of hedge funds

Because of the multi-dimensional nature of this business, the CRM solution for funds of hedge funds may have to be customized to meet their unique needs. This customization usually goes beyond the capability of simply adding new data fields. Rather, it should already be incorporated into the basic *structure* of the system. Even though some CRM providers have specifically targeted the asset management community with their products, no system will satisfy *all of every* alternative managers needs. With this in mind, some of the structural and functional features the hedge fund firm should look for in a CRM system are:

Data Warehouse

The CRM system should provide an integrated database of prospect/client profiles and historical record of all client interactions. It should manage report distribution specifications and investment restrictions and have the ability to import portfolio accounting data from in-house or off-shore administrative systems. The system needs to present a single desktop solution that includes all relevant data.

Many managers of pension assets may be in violation of Employee Retirement Income Securities Act (ERISA) requirements, because if a fund has ERISA money, it must distinguish the percentage of beneficial ownership down to the asset level. Thus, the CRM system needs to provide a multi-level account structure for each client

because both fund of hedge funds and hedge funds need to maintain important information at the account or fund level.

Relationship Management

The ability to handle multi-tiered relationship associations is essential for hedge funds. For example, a contact profile should be stored in the system only once but be able to be linked or associated with any number of company profiles in different roles. Consulting, custodial and other third party providers need to be associated with multiple client profiles. If a meeting (activity) includes client contacts and third party intermediaries, the activity notes should automatically attach to all parties and their company profiles. Additionally, another staff member viewing the third party or consultant relationship from a different perspective may need to know what has transpired in the past.

As there is quite a lot of personnel movement within the asset management community, any given individual may have multiple links to various prospects and clients. Essentially, does the CRM system provide a user friendly means of moving a contact from one firm to another, with options as to how the linkages and historical activity for the contact are to be handled? Or will contact data have to be re-input in order to preserve data integrity?

Document Management

An often overlooked CRM feature is the ability to maintain and manage a wide array of documents as part of the prospect's and client's historical record. Marketing collateral, request for proposals (RFPs), contracts, legal documents, client reports, email and other correspondence should be attached or linked to the CRM activity history record that marks their completion. In this way, staff members can easily retrieve important documents and satisfy client inquiries with a few clicks of the mouse.

Email Integration

The software should fully integrate with Outlook, the de-facto standard for email processing today. Email correspondence should be synchronized between Outlook and the CRM. Incoming and outgoing email must be stored as a permanent activity attached to the client profile, the to/from contact profile and any cc:s that exist in the database. This is essential for regulatory compliance, transparency and the historical integrity of the client relationship. Being able to quickly search and retrieve email correspondence on specific topics or keywords is much needed in today's regulatory environment.

Client Report Management

Many firms have been using a separate report database to handle client report distribution. These databases specify which contacts receive what reports at what frequency, how many copies, who gets cc:s, etc.. Maintaining a separate reports specifications file is

cumbersome at best and often they do not get updated with the latest contact information that is available from the front-office. If the client report specs are an integral part of the contact profile in the CRM database, duplication of effort is eliminated and errors are reduced.

In today's "email world", reports are often delivered to the client as email attachments. Another helpful feature is the ability to generate emails from within the CRM with client account-specific information (account #, market values, performance, etc.) within the body of the email and the clients monthly or quarterly report as an attachment.

Marketing Directories

Another challenge for funds of hedge funds operating in the institutional space is the identification of prospective plan sponsors. There are several pension fund directories available on the market today providing information on the US, UK and International pension funds, and their advisers: Standard & Poor's Money Market Directory of Pension Funds, Nelson's Plan Sponsors / Consultants, International Pension Funds and their Advisors, published by Aspire Publications and the Directory of UK Pension Funds and their Advisers, published by AP Information Services. Another important source of information for funds of hedge funds is the Alternative Investment Manager (AIM) database of information on 9,000 funds and 2,000 managers. The selected CRM solution should have the capability to import/access data from some or all of these directories, depending on the firms marketing scope.

Research Support

Funds of hedge funds have another unique relationship management issue that does not exist outside the asset management community. In addition to marketing to and servicing pension funds and high net worth individuals, they have an important research function. The firms'

analysts must review the backgrounds, investment strategies and performance records of numerous hedge fund managers on an ongoing basis. This effort involves background and reference checks, documentation of the manager's strategy and performance, meetings, phone calls, emails, written correspondence and revision of legal documents.

A CRM solution for fund of hedge funds should provide a complete historical record of all manager interactions and associated documentation in order to fulfill the firm's due diligence requirements. The manager's profile information should also be able to be linked to the client records invested in the manager's strategy.

Reporting and Ad-hoc Queries

The ability to query across the integrated database and create customized reports is important. Standardized sales and activity reports are also essential.

To summarize, the hedge fund and fund of hedge fund business has changed much over the past few years, necessitating the use of a technology solution for the new and unique relationship management problems introduced by traditional institutional clients. Systems that were designed for the general market are unlikely to satisfy the needs of hedge funds. Selection of the right system that can handle the many-to-many relationship model found in the investment management space is critical for a successful implementation. When investigating a modernization of your contact management system remember, CRM – Client Relationships Matter!

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